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CHILDREN'S INSTITUTE, INC.

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FINANCIAL STATEMENTS,  
SUPPLEMENTAL SCHEDULES,  
and  
ADDITIONAL INFORMATION

JUNE 30, 2008



Harrington Group  
CERTIFIED PUBLIC ACCOUNTANTS, LLP

J. Joseph Harrington  
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Tonetta L. Conner

INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Children's Institute, Inc.


We have audited the accompanying Statement of Financial Position of Children's Institute, Inc. (a nonprofit organization) as of June 30, 2008 and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Children's Institute, Inc.'s June 30, 2007 financial statements and, in our report dated October 26, 2007 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Institute, Inc. as of June 30, 2008 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2008 on our consideration of Children's Institute, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Children's Institute, Inc. taken as a whole. The accompanying Schedule of Expenditures of Federal and Non-federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 "*Audits of States, Local Governments, and Non-Profit Organizations*." The accompanying Statement of Program Services Expense is presented also for additional analysis. These schedules are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

  
San Marino, California  
October 31, 2008

**CHILDREN'S INSTITUTE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**2. Summary of Significant Accounting Policies, continued**

**Temporarily Restricted.** CII reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions.

**Permanently Restricted.** These stipulate that resources are to be maintained permanently but permit CII to expend all of the income (or other economic benefits) derived from the donated assets.

**Cash and Cash Equivalents**

CII has defined cash and cash equivalents as cash in banks and certificates of deposits with an original maturity of three months or less.

**Accounts Receivable**

CII uses the allowance method in order to reserve for potential uncollectible accounts receivable.

**Contributions and Pledges Receivables**

Unconditional contributions, including pledges recorded at estimated net realizable value, are recognized as revenue in the period received. CII reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets.

In order to comply with federal government requirements, CII reports all sources of federal and non-federal awards as Program Service Fees in its Financial Statements (see Note 14). In addition, CII files an annual IRS Form 990 information return, which includes certain government grants as related contributions. For the fiscal year ended June 30, 2008, the amount of government grants considered as related contributions is \$20,410.

**Investments**

CII values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain on investments.

Short-term, highly liquid money market deposits that are not used for operations are treated as investments.

**Bond Issue Costs**

Amortization of bond issue costs is computed on a straight-line method over the life of the related debt.

continued

# CHILDREN'S INSTITUTE, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

#### Concentration of Credit Risks

CII places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. CII has not incurred losses related to these investments.

The primary receivable balance outstanding at June 30, 2008 consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risk with respect to trade receivables are limited, as the majority of CII's receivables consist of earned fees from contract programs granted by governmental agencies.

CII holds investments in the form of short-term money market investments, limited partnerships, diversified mutual funds holding equities, as well as common stocks of publicly-held companies. Market values of such investments and are routinely reviewed by the Board of Directors.

Approximately 82% of revenue and support generated by CII for the year ended June 30, 2008 was derived from government contracts, of which 44% represent revenue from Los Angeles County Department of Mental Health.

#### Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred.

Property and equipment are capitalized if the cost of an asset is greater than or equal to five thousand dollars and the useful life is greater than one year.

#### Donated Materials and Services

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

For the year ended June 30, 2008, CII recorded total contributions of \$182,742 for donated materials. A number of unpaid volunteers have made significant contributions of their time to CII. However, the value of these services is not reflected in these statements because the criteria for recognition have not been satisfied.

# CHILDREN'S INSTITUTE, INC.

## NOTES TO FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies, continued

#### Income Taxes

CII is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

#### Functional Allocation of Expenses

Costs of providing CII's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method which best measures the relative degree of benefit. CII uses square footage and direct salary cost to allocate indirect costs.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented.

#### Comparative Totals

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with CII's financial statements for the year ended June 30, 2007 from which the summarized information was derived.

### 3. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise. All pledges are valued at the estimated fair present value at June 30, 2008. A discount rate of 3% has been used to calculate the present value of pledges receivable. Total amount of pledges receivable at June 30, 2008 of \$3,688,326 is expected to be collected as follows:

<u>Year ended June 30,</u>	
2009	\$2,616,267
2010	687,000
2011	312,300
2012	<u>309,000</u>
Pledges receivable, gross	3,924,567
Less: allowance for doubtful pledges receivable	(92,000)
Less: unamortized discount on pledges receivable	<u>(144,241)</u>
Pledges receivable, net	<u>\$3,688,326</u>

continued

# CHILDREN'S INSTITUTE, INC.

## NOTES TO FINANCIAL STATEMENTS

### 4. Investments

Investments at June 30, 2008 consist of the following:

Diversified mutual funds	\$17,844,755
Common stocks	4,310,092
Limited partnerships	1,928,445
Margin loan	<u>(5,575,552)</u>
	<u>\$18,507,740</u>

A margin loan was taken out against CII's stock position. The margin loan has no fixed loan term and no set time for repayment. The interest rate on the margin loan at June 30, 2008 was 3.15%.

### 5. Property and Equipment

In April 2006, CII purchased property at Temple and Alvarado Street near downtown Los Angeles, for the purpose of improving and renovating the property in order to provide program services to meet the needs of children and families in that community.

Property and equipment at June 30, 2008 consist of the following:

Land	
Temple and Alvarado Street Property	\$ 2,641,505
Central Campus – Colleagues Infant Care Center	<u>34,609</u>
	<u>2,676,114</u>
Buildings and Improvements	
South County Campus – Burton E. Green Center	5,593,038
Temple and Alvarado Street Property	2,766,675
Central Campus – Penberthy Center	2,616,203
Central Campus – Colleagues Infant Care Center	<u>1,824,724</u>
	<u>12,800,640</u>
Equipment and furnishings	4,079,585
Construction in progress - Temple and Alvarado Street Property	<u>1,518,604</u>
	21,074,943
	<u>(8,728,149)</u>
Less: accumulated depreciation	<u>\$12,346,794</u>

continued

# CHILDREN'S INSTITUTE, INC.

## NOTES TO FINANCIAL STATEMENTS

### 6. Accrued Liabilities

Accrued liabilities at June 30, 2008 consist of the following:

Accrued payroll	\$ 744,301
Accrued vacation	640,363
Interest payable	133,340
Other accrued liabilities	20,588
Contracts payable	4,957
	<u>\$1,543,549</u>

### 7. Accrued Unemployment Liability

CII has elected to be self-insured for purposes of California State Unemployment Insurance. Accrued unemployment liability at June 30, 2008 of \$427,824 represents estimated future claims arising from payroll paid to June 30, 2008. Unemployment expense for the year ended June 30, 2008 was \$42,918.

### 8. Deferred Revenue

Deferred revenue of \$107,244 represents advances from the California Department of Education. Revenue will be recognized in the next fiscal year as services are performed.

### 9. Bonds Payable

Effective February 28, 1992, CII issued \$5,635,000 of AA rated non-taxable fixed rate revenue bonds. A portion of the proceeds from the bonds was used to finance certain costs of constructing and equipping a 48-bed residential childcare and family development center located in the City of Torrance and to pay the costs of the issuance of the bonds. The remaining proceeds were used to finance the renovation of CII's childcare and welfare services facility, located in the Mid-Wilshire district of the City of Los Angeles. The bonds mature from July 1, 1994 through July 1, 2022 and bear interest at fixed rates ranging from 4.00% to 6.625% per annum, payable in semiannual installments. The interest rate at June 30, 2008 was 6.250%. At June 30, 2008 CII has a bond payable of \$4,095,000 and, as long as the bonds remain outstanding, all of CII's gross revenue (as defined in the Installment Sale Agreement and which excludes donor-restricted gifts, grants, bequests, donations, and contributions) will be pledged as collateral for repayment of the bonds in which the trustee holds a security interest.

# CHILDREN'S INSTITUTE, INC.

## NOTES TO FINANCIAL STATEMENTS

### 9. Bonds Payable, continued

Future sinking fund requirements are as follows:

<u>Year ended June 30,</u>	
2009	\$ 170,000
2010	180,000
2011	190,000
2012	205,000
2013	215,000
Thereafter	<u>3,135,000</u>
	<u>\$4,095,000</u>

CII is required to maintain certain minimum total fund balances and certain financial ratios. For the fiscal year ended June 30, 2008, CII met all debt covenants except for one of the financial ratios as specified by the bond agreement. Office of Statewide Health and Planning and Development has agreed to defer any action against CII for the debt service covenant default that occurred in the fiscal year ended June 30, 2008 based on CII's adequate reserve. The bonds are redeemable at the option of CII at par through June 30, 2008, and at any time thereafter.

### 10. Line of Credit

CII has a revolving unsecured line of credit with a bank in the amount of \$1,000,000, with a variable interest rate, currently at 4.50%, due November 2008. There was no balance outstanding at June 30, 2008.

### 11. Commitments and Contingencies

#### Obligations Under Operating Leases

CII leases facilities and equipment under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended June 30,</u>	
2009	\$ 762,551
2010	597,497
2011	433,652
2012	153,052
2013	<u>16,592</u>
	<u>\$1,963,344</u>

Rent expense under operating leases for the year ended June 30, 2008 was \$979,280.

continued



# CHILDREN'S INSTITUTE, INC.

## NOTES TO FINANCIAL STATEMENTS

### 11. Commitments and Contingencies, continued

#### Contracts

CII's grants and contracts are subject to inspection and audit by the appropriate governmental funding agencies. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, CII has a provision in the amount of \$884,518 for the possible disallowance of program costs on its financial statements.

### 12. Temporarily Restricted Net Assets

Funds that are restricted by the donor for particular purposes are reported as temporarily restricted revenue when received or pledged. As the funds are spent the assets are released from restriction and transferred to unrestricted net assets. Temporarily restricted net assets at June 30, 2008 consist of the following:

Building New Hope Campaign – Temple Street Expansion	\$5,204,390
Up Front Assessment	139,800
ERIN – Queens Care Emergency Room Outreach Program	55,157
Wellness Center/Alternative Healing	38,755
Starting Over and Needy Family Funds	<u>11,747</u>
	<u>\$5,449,849</u>

Since FY 2006-07 CII has been engaged in its "Building New Hope Campaign" to raise funds for the purpose of expanding programs services in connection with the purchase and renovation of the new Temple Street Campus Facility. The goal of this campaign is \$20,000,000 and as of June 30, 2008, CII has recorded \$5,204,390 in pledges and cash receipts (net of discount and reserve). These contributions have been recorded as temporarily restricted net assets and will be released from restrictions when utilized toward cost of renovation. The renovation is expected to begin in 2009.

### 13. Permanently Restricted Net Assets

Permanently restricted net assets represent contributions where the donor has stipulated that the principal is to remain intact in perpetuity and only the income therefrom can be expended for the needs of the organization and children. The total amount of permanently restricted net assets at June 30, 2008 is \$896,344.

# CHILDREN'S INSTITUTE, INC.

## NOTES TO FINANCIAL STATEMENTS

### 14. Program Service Fees

Program service fees for the year ended June 30, 2008 consist of the following:

Los Angeles County Department of Mental Health	\$13,857,911
Early Childhood Care and Education	4,188,937
Project Fatherhood	1,628,829
Family Preservation program	1,214,829
Early Head Start	1,494,229
Foster Care and Wraparound (Title IV-E)	1,060,834
First 5 L.A. (Proposition 10)	551,161
Crime Victim Assistance (OES)	413,407
Other	<u>1,804,178</u>
	<u>\$26,214,315</u>

### 15. Employee Benefit Plan

CII sponsors a defined contribution money purchase plan. All full-time employees are covered under the plan after one year of service, unless the employee had previously worked for a nonprofit organization within three years of the date of hire by CII, in which case coverage is immediate. Additionally, all part-time employees with a minimum of 1,000 hours of service are covered by the plan. Contributions represent 7.5% of each covered employee's salary, and for the year ended June 30, 2008 totaled \$816,198.

### 16. Office of Emergency Services

Costs incurred for the California Child Sexual Abuse Training Center, relating to the Office of Emergency Services funding, are included in the program services on the Statement of Functional Expenses. These costs for the year ended June 30, 2008 consist of the following:

Child Abuse Treatment Program – AT06031105	
Personnel services	\$ 42,695
Operating expenses	<u>155,790</u>
	<u>\$198,485</u>
Child Abuse Treatment Program – AT07041105	
Personnel services	\$122,132
Operating expenses	<u>15,840</u>
	<u>\$137,972</u>
Child Sexual Abuse Treatment Center – CS07031105	
Personnel services	\$63,200
Operating expenses	<u>13,750</u>
	<u>\$76,950</u>

## SUPPLEMENTAL SCHEDULES

## CHILDREN'S INSTITUTE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS  
For the year ended June 30, 2008

	Contract Number	Federal CFDA Number	Governmental Revenue Federal	Non-federal	Expenditures From Governmental Revenue
<b>Federal awards</b>					
Agency/ Program Grant Title					
<b>Major awards</b>					
U.S. Department of Health and Human Services:					
Pass-through, County of Los Angeles Department of Mental Health:					
Medical Assistance Program:					
Community Mental Health Services	MH120013		\$ 6,346,634	\$ 6,426,708	\$ 12,773,342
Pass-through, County of Los Angeles Department of Public Health:					
Medical Assistance Program:					
AOD Drug Medi-Cal Regular	H-701245A		10,439	10,438	20,877
AOD Drug Medi-Cal Perinatal	H-701245B		1,606	1,606	3,212
		93.778	6,358,679	6,438,752	12,797,431
<b>Total major awards</b>			6,358,679	6,438,752	12,797,431
<b>Non-major awards</b>					
U.S. Department of Health and Human Services:					
Pass-through, County of Los Angeles Department of Children and Family Services:					
Promoting Safe and Stable Families:					
Family Preservation Program	04-025-12 & 04-025-13		991,153		991,153
Adoption Promotion and Support Services	04-024-18		223,676		223,676
Pass-through, Administration for Children and Families:					
Replication of Demonstrated Effective Practices in the Prevention of Child Abuse and Neglect					
Family Connections	90CW1121/04		107,491		107,491
	90CW1121/05		277,852		277,852
		93.556	1,600,172	-	1,600,172
Pass-through, The Office of Family Assistance:					
Healthy Marriage Promotion and Responsible Fatherhood Grants					
Promoting Responsible Fatherhood	90FR0076/01		90,991		90,991
Promoting Responsible Fatherhood	90FR0076/02		430,038		430,038
Promoting Responsible Fatherhood, Community Access Program	90FR0088/01		238,402		238,402
Promoting Responsible Fatherhood, Community Access Program	90FR0088/02		869,398		869,398
		93.086	1,628,829	-	1,628,829
Pass-through, Office for Children and Families:					
Early Head Start					
Early Head Start	09CH9080/01		1,412,788		1,412,788
Early Head Start	09YC0463/04		81,441		81,441
		93.600	1,494,229	-	1,494,229
Pass-through, County of Los Angeles Department of Community and Senior Services:					
Temporary Assistance for Needy Families					
CalWorks Domestic Violence Program	50133		119,766		119,766
Pass-through, County of Los Angeles Department of Public Health:					
Temporary Assistance for Needy Families					
AOD CalWorks	PH-000127A		6,282		6,282
		93.558	126,048	-	126,048
Pass-through, Substance Abuse and Mental Health Services Administration:					
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances					
	MH120206	93.104	1,084,569		1,084,569
Pass-through, County of Los Angeles Department of Public Health:					
Block Grants for Prevention and Treatment of Substance Abuse					
AOD Drug Medi-Cal PTEP	H-702145A	93.959	43,076		43,076

See independent auditors' report.

CHILDREN'S INSTITUTE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS

For the year ended June 30, 2008

continued

	Contract Number	Federal CFDA Number	Governmental Revenue		Program Expenditures From Governmental Revenue
			Federal	Non-federal	
<b>Non-major awards, continued</b>					
U.S. Department of Health and Human Services:					
Pass-through, State of California Department of Education:					
Child Care Mandatory and Matching Funds of the Child Care and Development Fund					
Center Child Care	CCTR-7123	93.596	958,699	2,651,249	3,609,948
Child Care and Development Block Grant					
Facilities Renovation and Repair	CRPM-5025		40,500		40,500
Facilities Renovation and Repair	CRPM-7017		35,805		35,805
Capacity Project	CCAP-7121		6,917		6,917
Instructional Materials	CIMS-7251		3,464		3,464
		93.575	86,686	-	86,686
U.S. Department of Agriculture:					
Pass-through, California State Department of Education:					
Child and Adult Care Food Program	19-1335-8A	10.558	138,740	50,803	189,543
Pass-through, County of Los Angeles:					
Foster Care - Title IV-E					
Foster Family Agency	0535.01.01		120,697	328,788	449,485
Wraparound Approach Services	04-011-09			611,349	611,349
		93.658	120,697	940,137	1,060,834
U.S. Department of Justice:					
Pass-through, County of Los Angeles Substance Abuse and Mental Health Services:					
Projects of Regional and National Significance					
Central Los Angeles Child Trauma Collaborative	1U79SM058241-01	93.243	203,500		203,500
Pass-through, Office of Emergency Services:					
Crime Victim Assistance					
Child Abuse Treatment Program	AT07041105		137,972		137,972
Child Abuse Treatment Program	AT06031105		198,485		198,485
Child Sexual Abuse Treatment Center	CS07031105			76,950	76,950
		16.575	336,457	76,950	413,407
National Endowment for the Arts:					
The Big Read Pilot Program for Incarcerated Youth					
	DCA-07-36	45.024	30,000		30,000
<b>Total non-major awards</b>			<b>7,851,702</b>	<b>3,719,139</b>	<b>11,570,841</b>
<b>Total federal awards</b>			<b>14,210,381</b>	<b>10,157,891</b>	<b>24,368,272</b>
<b>Non-federal Awards</b>					
County of Los Angeles Children and Families First:					
Proposition 10 Commission					
School Readiness Initiative	00509			536,161	536,161
Training Conference Support				15,000	15,000
State of California Department of Education:					
Child Development Program					
State Preschool and State Preschool Expansion	CPRE-7119			492,303	492,303
City of Los Angeles Community Development Department:					
Los Angeles Bridges (See schedule of sub recipient payments below)					
	C-100025			350,194	350,194
County of Los Angeles Department of Children and Family Services:					
AB 1733					
Training Conference Support				300,758	300,758
				5,412	5,412
City of Los Angeles Mayor's Office of Homeland Security:					
Domestic Abuse Response Team Program					
	C-110156			76,609	76,609

See independent auditors' report.

## CHILDREN'S INSTITUTE, INC.

## SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS

For the year ended June 30, 2008

continued

	Contract Number	Federal CFDA Number	Governmental Revenue		Program Expenditures From Governmental Revenue
			Federal	Non-federal	
<b>Nonfederal Awards, continued</b>					
Los Angeles Unified School District: Violence Prevention Program				48,000	48,000
County of Los Angeles Department of Public Health: AOD Prop 36 PTEP Augmentation	PH-000120A			14,838	14,838
State of California - Victim Compensation and Government Claims Board: Victim Compensation Program				6,768	6,768
<b>Total non-federal awards</b>			-	1,846,043	1,846,043
<b>Total federal and non-federal awards</b>			<u>\$ 14,210,381</u>	<u>\$ 12,003,934</u>	<u>\$ 26,214,315</u>
<b>Payments to Sub Recipients</b>					
Los Angeles Bridges	C-100025				
Heart of Los Angeles			\$ -	\$ 33,858	\$ 33,858
Korean Youth and Community Center				24,189	24,189
Theatre of Hearts/Youth First				15,750	15,750
			-	73,797	73,797
Fatherhood	90FR0088/02	93.086			
Heavenly Spirits Inc.			49,992		49,992
St. Francis Medical			49,992		49,992
National Family Life			49,992		49,992
Southern California			49,992		49,992
El Shaddai Ministries			66,656		66,656
Los Angeles Indigenous			50,004		50,004
West Angels Church			45,826		45,826
Los Angeles Metropolitan Churches			49,999		49,999
Weingart Center Association			50,000		50,000
Peace Over Violence			12,785		12,785
El Centro Del Pueblo			49,997		49,997
Praise Chapel			16,677		16,677
Sacred Circles Center			16,664		16,664
California Institute			16,664		16,664
Airport Marina Counseling			16,664		16,664
Cambodian Association			8,332		8,332
National Council			16,664		16,664
Fairfield Family YMCA			16,664		16,664
SPIRIT Family Services			16,664		16,664
MELA Counseling			12,498		12,498
			662,726	-	662,726
Family Preservation	04-025-12 & 04-025-13	93.556			
Child Alliance			51,483		51,483
Star View			114,241		114,241
Masada Homes			55,316		55,316
			221,040	-	221,040
Adoption Promotion Support Services	04-024-18	93.556			
Families for Children, Inc.			183,295		183,295
SAMHSA	MH120206	93.104			
USC School of Social Work			288,569		288,569
Child Trauma Center	1U79SM058241-01	93.243			
USC Department of Psychiatry			37,196		37,196
<b>Total Payments to Sub Recipients</b>			<u>\$ 1,392,826</u>	<u>\$ 73,797</u>	<u>\$ 1,466,623</u>

## Summary of Significant Accounting Policies

1. Basis of Accounting - The Schedule of Expenditures of Federal and Nonfederal Awards has been reported on the accrual basis of accounting.
2. CII is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.

See independent auditors' report.

# CHILDREN'S INSTITUTE, INC.

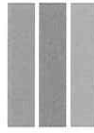
## STATEMENT OF PROGRAM SERVICES EXPENSE

For the year ended June 30, 2008

With comparative totals for the year ended June 30, 2007

	Early Childhood Services	Child and Family Treatment	Leadership and Training	Total Program Services Expense	
				2008	2007
Salaries	\$ 2,671,625	\$ 8,925,340	\$ 1,069,869	\$ 12,666,834	\$ 10,508,537
Payroll taxes and employee benefits	705,408	2,001,678	224,012	2,931,098	2,542,710
Total personnel costs	<u>3,377,033</u>	<u>10,927,018</u>	<u>1,293,881</u>	<u>15,597,932</u>	<u>13,051,247</u>
Professional fees	171,576	2,693,579	1,009,743	3,874,898	2,899,835
Outside services and consultants	1,504,425	315,412	10,559	1,830,396	1,664,012
Occupancy	365,859	702,215	29,949	1,098,023	801,543
Supplies	283,963	585,789	85,637	955,389	736,203
Conferences and training	55,767	144,829	339,432	540,028	177,923
Local transportation	55,404	248,115	17,993	321,512	232,796
Equipment rental and maintenance	53,870	105,059	10,194	169,123	140,423
Telephone	33,027	121,411	9,994	164,432	129,792
General insurance	23,963	77,722	9,283	110,968	103,979
Miscellaneous	16,745	47,805	6,169	70,719	74,137
Food and supplies	97,307			97,307	131,086
Printing and publications	19,876	31,817	10,964	62,657	45,027
Recruitment expenses	5,739	19,429	2,263	27,431	45,553
Postage and shipping	3,364	10,900	3,219	17,483	15,938
Total expenses before depreciation, amortization and indirect cost and administrative allocation	<u>6,067,918</u>	<u>16,031,100</u>	<u>2,839,280</u>	<u>24,938,298</u>	<u>20,249,494</u>
Depreciation and amortization	98,167	170,273	6,919	275,359	280,122
Indirect cost and administrative allocation	587,498	1,708,728	205,665	2,501,891	2,494,717
Total program services expense	<u>\$ 6,753,583</u>	<u>\$ 17,910,101</u>	<u>\$ 3,051,864</u>	<u>\$ 27,715,548</u>	<u>\$ 23,024,333</u>

See independent auditors' report.



## Harrington Group

CERTIFIED PUBLIC ACCOUNTANTS, LLP

J. Joseph Harrington  
Job M. Quesada  
Sean E. Cain  
Tonetta L. Conner

### Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

To the Board of Directors  
Children's Institute, Inc.

**Compliance.** We have audited the compliance of Children's Institute, Inc. ("CII") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. CII's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of CII's management. Our responsibility is to express an opinion on CII's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CII's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on CII's compliance with those requirements.

In our opinion, CII complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

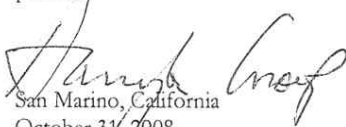
**Internal Control over Compliance.** The management of CII is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered CII's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express opinion on the effectiveness of CII's internal control over compliance.

A *control deficiency* in CII's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects CII's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not prevent or detected by CII's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the CII's internal control.

Our consideration of internal control over compliance was for limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

  
San Marino, California  
October 31, 2008



**CHILDREN'S INSTITUTE, INC.**  
**Schedule of Findings and Questioned Costs**  
For the year ended June 30, 2008

**Section I – Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued:	unqualified	
Internal control over financial reporting:		
• Material weakness(es) identified?	___yes	___x___no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	___yes	___x___none reported
Noncompliance material to financial statements noted?	___yes	___x___no

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	___yes	___x___no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	___yes	___x___none reported
Type of auditor's report issued on compliance for major programs:	unqualified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	___yes	___x___no

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	___x___yes      ___no

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.778	U.S. Department of Health and Human Services: Pass-through, County of Los Angeles Department of Mental Health: Medical Assistance Program

**Section II – Financial Statements Findings**

There are no findings required to be reported in accordance with *Generally Accepted Government Auditing Standards*.

**Section III – Federal Award Findings and Questioned Costs**

There are neither findings nor questioned costs for Federal awards as defined in OMB Circular A-133.

**Section IV – Summary Schedule of Prior Year Findings**

None.